

Entry Strategies to the Russian Market. Case: ML Components GmbH

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9 June 2017

Bachelor Degree in In-
ternational Business



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Degree programme International Business, Marketing and Sales	
Report/thesis title Entry Strategies to the Russian Market. Case: ML Components GmbH	Number of pages and appendix pages 53 + 2
<p>Internationalization significance grows constantly, and various SMEs around the world conduct its processes on a regular basis today. Every firm analyses which country's market is beneficial and profitable for its own business expansion. One of the biggest and demanding markets of the word is Russian market. Many SMEs are interested in cooperation with Russian entities, as well as the commissioner of the Thesis.</p> <p>However, Russian market is unstable in political and economic environments, endures constant changes in legislation and foreign trade systems, language barrier. All those factors scare SMEs away from internationalization into the market, and the commissioning company questions integration into the commerce with potential Russian customers. Nevertheless, before the decision of entering any market, a firm should conduct a precise analysis of internationalization processes and identify the main factors of the chosen market. In the case of the commissioner ML Components GmbH, internationalization obstacles and opportunities should be studied focusing on the Russian market.</p> <p>The Thesis paper presents the research on the internationalization process in general and analysis of the Russian market using the PESTEL model. This way, the researcher provides the commissioner and the reader with profound knowledge on internationalization as a model of entering the market and presents the possible solutions for the existing problems the commissioner faces now while conducting international trade with Russian clients.</p>	
Keywords Internalisation, emergent market, PESTEL, foreign market, international payment, customs	

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1 Introduction

The chapter provides the reader with the main problem of the Thesis, which specifies its need for the commissioner. Main questions that should be answered and aims with objectives that should be achieved after the Thesis completion are also included into the chapter, in order to provide the reader with information about exact benefits the research paper should bring and to whom.

1.1 Research Problem

The commissioner of the Thesis is ML Components GmbH, an international distributor of active and passive electronic components. The company provides manufacturers with technology goods, which can be used in various industries' production such as medicine, aerospace, transportation, telecommunication, computer, peripheral, and military. The focus of the company is finding hard to find or obsolete components, thus, it guarantees to the clients its ability to find any needed product in a short time.

Being a Germany-based firm, ML Components operates internationally within and outside of the European Union and resales products to such countries as Germany, France, Italy, USA, Canada etc. Russian Federation is among the most important markets for ML Components GmbH. Despite the recent crisis, trading here gives opportunities for an increase in sales and establishment of long-term partnerships. However, export from abroad to Russia can be a very complicated process, comparing to other countries. It occurs because of differences in business environments, legislation, policy, cultural factors etc. Since the commissioning company is new to the global and Russian markets, it lacks professional knowledge of the mentioned aspects. Because of that reason during my internship in a sales department of the commissioning firm, I faced particular problems while negotiating on orders with potential Russian clients, especially regarding trade policies, customs control, and international payment methods. The conditions led to losing plenty of deals with clients from Russia, and the founder of ML Components GmbH addressed me the question: How ML Component GmbH can gate into the Russian market efficiently? In order, to answer the question, such topics as internationalization and Russian market should be studied carefully. The result of the Thesis should help ML Components GmbH to move forward in the comprehension of internationalization into the Russian Federation market and finding solutions for the present problems in business with Russian clients.

1.2 Research Questions

The theoretical part of the research will include studying internationalization as a process, its main theoretical models, influential factors, components of a supply chain, customer relationship and key methods of international payments in trade. The context of the research describes the Russian market according to political, economic, social, environmental and legal issues. Thus, it provides the reader with the analysis on business opportunities in the microelectronic industry in Russia or PESTEL. In consequence, it will help to achieve the aim of the Thesis: generating useful recommendations and finding solutions for the problems the commissioner faces now.

In order, to reach the aim, we will focus on the following research question (RQ): How ML Components GmbH can perform successful internationalization into the Russian market?.

The main question is divided into 3 following questions of investigation:

- How does the Russian market look like for ML components GmbH?
- What should any SMEs, which is striving to deal with Russian market, take into consideration before entering the Russian market?
- What should be done by the commissioner to successfully realize trade with its Russian clients?

The main indicator of reaching the objectives of the Thesis is answering all the research questions with explanation.

1.3 Aims and Objectives

The primary aim of the research paper is to find the best solutions of conducting business with Russian customers for the Commissioner located in Germany. The topic covers many questions SMEs interested in Russian market might have, therefore, Thesis might not be useful only for the commissioner, but also might become an informative guide for foreign and Russian companies interested in internationalization into the market of Russian Federation. Consequently, the Thesis research comprises a few objectives, which combine general qualitative research and personal findings. First, it is comprehension of Internationalization in the way that the commissioner is able to gain market share in the Russian market.

Secondly, it is setting clear problems ML Components faces while conducting international trade with Russian clients and investigating other possible obstacles that can arise during the process of trade. The third objective comprises finding the best solutions and recommendations for ML Components GmbH to successfully proceed with the trade and policies with future Russian clients.

2 Internationalization to emergent market

This chapter of the Thesis provides the reader with the literature review about internationalization, its main characteristics, and segments. The theoretical research comprises the studying of possibilities and challenges created by internationalization, its mechanism and factors.

2.1 Internationalization process

According to Welch and Luostarinen (1988), internationalization is a process of increasing involvement in international markets by a company. However, Reid (1983) defines internationalization as a measure of differences between the home and foreign markets in economy, culture, policy, and marketing dimensions, perceived by the company. Some scholars define internationalization as the process of increase of their awareness of the direct and indirect impacts of international transactions with other countries. The main drivers of internationalization are globalization, technological, economic and political changes, which change the business strategies for SMEs worldwide.

2.1.1 Uppsala model of internationalization

Internationalization has been studied from various perspectives over the years by different economists, which led to the formulation of several models of the process.

The major international business activity for companies is exporting. Traditionally, this way of internationalization activity was considered as the main way of increasing growth of firms. Exporting goods to a foreign country also can be determined as the first step of an internationalization process, which the most common model was suggested by Swedish Johanson and Wiedersheim-Paul and published in 1975 as Uppsala model. It described a firm's internationalization as a process of experiential learning and gradual commitments, which leads to the development in a foreign market. The fundamental assumption of the model is that "the lack of knowledge is an important obstacle to the development of international operations" (Johanson & Vahlne, 1977). The Uppsala model distinguishes a few key features firms tend to have while internationalizing:

- Gaining experience in business operations from the domestic market before entering a foreign market
 - Starting the foreign operations from culturally or geographically close countries, then moving to culturally or geographically more distant states
 - Starting the foreign operations by using traditional exports and slowly moving to the use of more intensive and demanding operation modes such as sales subsidiaries, joint ventures, master licensing arrangements etc.
- (Welch, 1990)

According to the Uppsala model, the process of internationalization requires knowledge acquisition and learning about the specific market of entry. It forwarded the idea that firms follow a gradual internationalization process: the necessity to acquire knowledge about local demand and supply conditions. Such a process leads firms to serve a foreign market via exports before engaging in FDI (Foreign direct investment). The reason of it is possible uncertainty about the size of foreign demand and adequacy of the products to the local tastes. According to Maitena Duce and Banco De Espana 2003, Foreign Direct Investment reflect the aim to obtain a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is a resident in another economy (the direct investment enterprise). This “lasting interest” implies the existence of a long-term relationship between the direct investor and the enterprise of direct investment and a significant degree of influence on the management.

The authors of the model suggest a four steps process, which is shown in Figure 1.

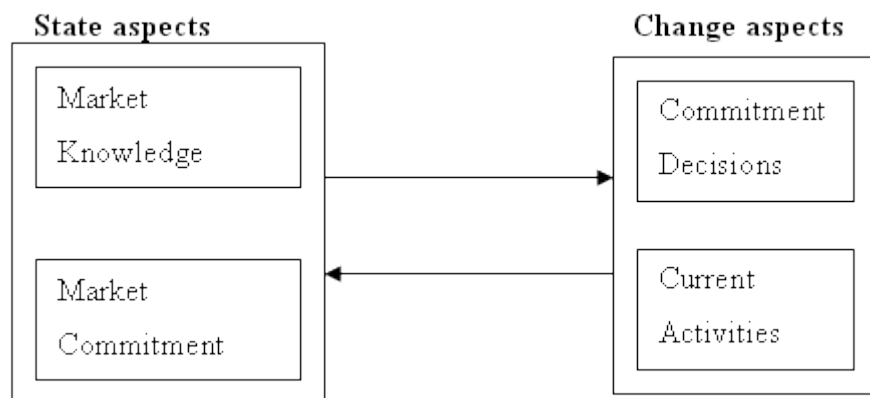


Figure1: Uppsala model of internationalization process

Although the Uppsala model describes important relevance with the international business processes, it has been criticized due to the inability to explain some rapid and contemporaneous internationalization processes such as active online internationalization (Francesco Pignatti, 5)

2.1.2 Eclectic Paradigm of internationalization

Another economic theory of internationalization is called “Eclectic paradigm” or OLI paradigm, which was developed by John H. Dunning in 1979. The aim of the theory was to explain why a company might choose FDI over other entry modes for internationalization. The Business Dictionary portal defines eclectic paradigm as a holistic economic model for

evaluating a company's strategy to expand its operations through FDI or foreign direct investment. The model applies common factors of an economy to measure the relevance of the strategy comparing to other alternative transactional strategies.

A holistic economic model used to evaluate a company's strategy to expand its operations through foreign direct investment. The model applies common economic factors to determine if the value derived from the strategy is greater than alternative transnational strategies (Dunning 1980). This model is considered as a holistic approach and is based on the examination of the relationships and interactions of various components. It helps to determine an organization's internationalization strategy through foreign direct investments operations.

The eclectic paradigm is comprised of three external and internal factors, as a part of an analysis. First, it is owner-specific advantages (O), which refer to the determination if any comparative advantage to performing certain functions take place within a particular country. Usually, this factor is applied to the comparison of availability and costs differences of locations' resources and used in case of imperfect markets. In its turn, imperfect markets are markets suffering from a non-match of sellers and buyers, inadequate information flow. (Dunning 1980, 11). The second factor of the process is locational attractions (L), which refer to the value-adding activities in alternative countries or regions, outside the national borders of the firm. At last, the third circumstance of the process, internationalization advantages (I), are focused on the necessity for a company to produce goods itself or consider a contract with a third party. This concept is used if the company can effectively meet the production needs of an organization at lower costs than that organization would have performed or managed itself. Alan C. Sharpio, an author of the book *Multinational Financial Management* (2010, 578-579), states that a firm needs to identify the market imperfections for determining the most profitable project.

Figure 2 shows the most common international activities according to each factor of eclectic model.

Source: <i>Dunning (1981)</i>		Categories of advantages		
		Ownership advantages	Internalization advantages	Locational advantages
Form of market entry	Licensing	Yes	No	No
	Export	Yes	Yes	No
	FDI	Yes	Yes	Yes

Figure 2: Eclectic Paradigm

International activity by licensing is having knowledge about the foreign target market, which includes having staff with the appropriate language skills, acquiring information about import permissions and regulations, collecting useful contacts. This practice is applied only to the ownership advantages cases.

If a company would like to invest more capital abroad, it can realize export to another market in a form of export subsidiary. As it is described in Figure 2, this activity refers to the ownership and internationalization advantages.

The third international activity a firm can do is the foreign direct investment, and is usually implemented when the factories are constructed or bought abroad. According to the model, FDI is related to the Locational advantages.

2.1.3 Network theory

With the development of international trade and internationalization theories, international business environments have evolved significantly. Various collaborative arrangements and partnerships between companies became very common. Such transformation of the market has changed the focus of academic research towards the internationalization theory of Networking (Johnson & Turner 2003, 112). Johanson and Mattson presented this model of internationalization in the late 1980s. The main concept of the theory is that striving in a business environment; a firm has to establish many organizational relationships. According to the theory, the firm's relationships within a domestic network can be used as connections to other networks in other countries (Johanson and Mattson, 1988).

According to Piore & Sabel, 1984, Networks create trust and increase forbearance. The Network theory of internationalization is mostly applicable to the small high tech firms. It argues that the technological companies usually do not go through the gradual process of internationalization, instead, they aggressively use their networks and connections to the distribution, supply, customer and other stakeholders, in order to gain insight on foreign markets (Jones, 1999, p. 70; Nummela, 2010, p. 49).

Theorists of the network supposition see building global networks as a stepping-stone into the internationalization process of a firm. (Kudina, et al., 2008, p. 43). Thus, companies use their connections in other countries for entering those markets. Therefore, the level of the connection should be strong and reliable, so a firm can conduct successful internationalization into the new foreign market. Therefore, by creating relationships, SMEs are able to access information and resources in foreign markets.

Networking relationships can develop passively or actively. The fundamental differences between these types are the initiator's side. In a case of a passive relationship, the buyer is the main figure of initiations, while active relationship means that the firm is the main initiator of the connections. The main advantage of active networking is knowledge acquisition, learning and foreign expansion for the firm. This way, even without suitable network connections by taking the initiating role a firm can generate new connections and ease its penetration into the market. However, in the case of a passive way of internationalization, which includes customers, importers, intermediates, suppliers, firms are led to foreign markets and new opportunities (Ojala 2009, 51)

An example of business relationships in the Network Theory is shown in the Figure 3.

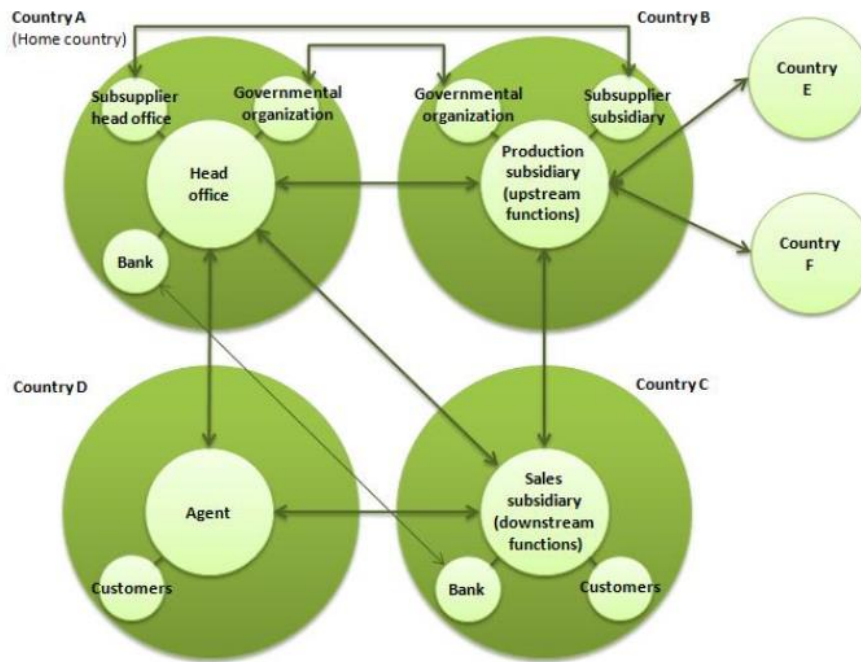


Figure 3: An example of International network (Hollensen 2017, 71)

Nevertheless, the theory of networking is not able to highlight or realize the impact of differences in culture on the established connections (Haar & Meyer-Stamer, 2008, p. 108).

2.1.4 International Entrepreneurship Theory

The most recent theory of internationalization process was developed in the 1990s, due to the openings of national borders and changes in policy and economy.

International entrepreneurship is defined as "a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organizations", according to McDougall and Oviatt. (McDougall and Oviatt, 2000, 903).

International Entrepreneurship can occur in both early and later stages of a life-cycle of a firm. Therefore, it makes important to conclude that both start-ups and older growth firms can realize the process of internationalization. (Schulz, Borghoff, and Kraus 2009). IE theory is focused on the cross-border entrepreneurial behavior, actors' discovering, enacting, analyzing and exploiting opportunities of a creation of goods and services. In its turn, discoveries refer to finding innovative opportunities, enactment determines opportunities of acquiring a competitive advantage. Evaluation is required to integrate the actions taken by developing knowledge and experience.

The emphasis of international entrepreneurship is entrepreneurial behavior, which is created by an entrepreneur or entrepreneurial team. The strategic choices available to the entrepreneurs are coupled with the home region context, influencing the decisions of internationalization. (Mohibul Islam Masum 2012). The decisions are made by the entrepreneur of the firm, whose skills and knowledge help him to measure the opportunities in the market and establish successful relationships with the other firms, suppliers, government, media, etc. Thus, the IE Theory involves the network theory concepts for internationalization process, focusing on connections and relationships. Moreover, usually an entrepreneur is a risk-taker, so he is able to commit the available resources in the most efficient way to achieve the competitive advantage. An entrepreneur is a seeker of opportunities, in a case of internationalization, an explorer of international opportunities (Manuel Portugal Ferreira Instituto Politécnico de Leiria, Portugal Fernando Ribeiro Serra 2007).

2.1.5 Rapid internationalization and born-global SMEs

The internationalization of born-global SMEs is a subject, which interest is growing in today's business. Comparing to the multinational corporations (MNCs), born-global enterprises usually lack resources needed in their process of internationalization (Honey Htun Wai Pittana Noichangkid 2012, 13). The born-global companies see and operate the world as one market; they do not have other small or domestic markets, while traditional firms who tend to strengthen in their domestic market. Global-born SMEs are the most positive towards internationalization businesses because they perceive foreign markets as the most profitable places of trade with big opportunities. Therefore, such firms tend to internationalize since their inception of shortly after their establishment in the home market (Chetty & Campbell-Hunt, 2004).

Hashai 2011 describes three main ways of internationalization approach for born-global companies. The first mechanism is a concentration of key resources for substantial expansion. The second mechanism focuses on the use of risk reduction and receiving greater capabilities. Here the firms attempt to explore the markets to achieve additional resources and abilities for the successful market expansion. The third approach of rapid internationalization is shifting to the alternative internationalization pathway and preventing the internationalization complexity and marketplace risks. The described type of internationalization requires the ability of flexibility from SMEs, in order to achieve the first-mover advantage, the significant establishment in the market. This first-mover advantage (FMA) is gained by the initial significant occupant of the market segment, which may be referred also to the technological leadership in the market.

According to Knight and Cavugil 1996, the emergence of born-global SMEs can be facilitated by the following below factors:

- The role of niche markets and market demands for customized products is increasing
- Increase of advanced technologies in communication for getting the greater access to information and help SMEs to manage their operations easily and efficiently
- The flexibility, quick decision-making process and time saving advantages acquired mostly by SMEs
- Development of mutually beneficial relationships forms between the parties due to the global network enhancement
- The existence of funding new ventures and receiving benefits of knowledge transfer and technology, caused by venture capitalists, corporate business networks, and special institutions.

Knight & Cavusgil (1996, cited in Bell et al 2001).

Networks are an essential part of internationalization of both traditional and born-global SMEs. In order to accumulate market and experimental knowledge and attempt to attain subsidiaries in the foreign markets, SMEs employ network relationships (Chetty & CampbellHunt, 2004). However, in order to internationalize successfully, any firm should have enough human, financial, intellectual, social capital, and international knowledge.

2.2 Factors influencing entry to a foreign market

Various aspects and risks of internationalization should be taken into account for any SME before entering a foreign market. These circumstances of a firm and foreign markets are divided into internal and external factors.

2.2.1 Internal factors

The first internal factor for entering a foreign market for any company is the size of the company. According to the economists, the size of the firm determines the company's resource availability such as human and financial resources (Koch, 2001; Hollensen, 1988). Thus, any SME interested in internationalization should have enough management potential and skills required for the resources commitment. Usually, small enterprises with limited resources prefer to select models of lower control and resource commitment for their internationalization process (Root, 1994; Koch, 2001).

Another impact on entry modes is caused by the firm's product or service assets. It is important to differentiate the firm's goods over its competitors. Thus, an international company should be close to the customer of the market of entry, it should interact with potential buyers. Especially, if a company sells technological and know-how products, it should follow any changes of technological changes in the market. Therefore, in order to create a

high-level differentiation and complexity of its product, it should choose a high control mode as the main entry mode into the foreign market.

As the networking theory claims, networks may be an important component of a successful internationalization depending on particular modes, especially for SMEs. In emergent markets such as Russia, China or Brazil, networking is a key to success of entering into the market (Wan & Lowe, 2007). According to the theory, connections with local stakeholders, suppliers and other partners, allows companies to gain comprehensive knowledge and skills along with the access to the market. From cooperation with its partners, a firm may use their networks to get reliable information and reduce possible risks of internationalization such as higher costs, fines from acknowledgment; it also may be able to adapt its business or the product to the market to the highest level.

International experience also matters in any SME's internationalization process. By having already existing knowledge and experience of entering other foreign markets, the company improves its abilities to predict the market changes, forecast the costs and returns, demands of a customer, imply the most efficient entry mode for the country. Besides, having experience in the markets of previous internationalization, a firm is more likely to commit higher resources than it did for the first time on a particular market. This occurs due to the reduction and avoiding specific risks an entry mode may bring to the company's business.

2.2.2 External factors

The first external factor in internationalization is, obviously, cultural distance. Differences in countries' culture play a significant role in any entry mode of internationalization. Not being able to understand the customers' behavior or preferences regarding the product or service a firm offers, may lead to the failure of market share increase in the foreign market. Many companies tend to realize their international activities in countries generally similar to their home country, which helps them to minimize the risks and financial costs of business operations. As a factor, cultural difference includes language, religions, beliefs, consumer products, business practices and other characteristics. For instance, McDonald's, a brand fast food company, conducts research market of every country it is planning to internationalize. The firm's food products are adapted to each market and customers tastes of food, which generates higher market share. However, McDonald's case can be applied only to big companies, while small firms tend to entry into the markets with similar

culture to their local markets, since their resources commitment is limited. Each company's entry mode should consider any differences in culture while internationalizing and choose its own entry mode commitment according to its business opportunities.

Market potential is another significant condition of the market entry. Generally, the potential of the market is the estimated maximum of total sales revenue of all products or suppliers during a certain period of time. In other words, the market potential is the total sales that a company could generate if it closed every prospective customer, in this area of operation.

The total of all prospective customers is often related to the amount of population of the market (Infoanalytica). Thus, the factor is usually referred to the size and growth of the market (Chen & Mujtaba, 2007). The greater the size of the market of entry, the greater the potential for growth of the firm.

The possible risks a country's market may bring to the firm influences the entry mode choice significantly (Brouthers & Nakos, 2004). The political, economic, legal, social, and technological situations in the country may increase risks for any entering firm to its market. This increase of risks leads to uncertainty about the future demand condition and create obstacles for a firm in entering the target market. Therefore, country risks are an important factor in choosing an entry mode to any country's market. A firm may choose lower control and resource commitment for its internationalization plan (Brouthers & Nakos, 2004).

Market barriers such as government restrictions and trade policies significantly hinder foreign firms to realize an entry mode to the foreign country. Therefore, firms are usually aiming to enter the target market with fewer barriers for trade. For new international firms, barriers may be hidden in customer loyalty to already existing on the market firms, taxes, costs. Therefore, such barriers may benefit earlier entered firms on the market by providing them protection, higher revenues, and profits.

The competition intensity is the measure of the number of competitors of a firm in a foreign country and considered as an external factor for choosing an entry mode strategy. If the competition level on the market is high, the market becomes less profitable and encourages high commitment of resources, which leads to selecting the lower control and resource commitment mode of entry. (Hollensen, 2011).

2.3 Entry and supply chains components

Since the commissioner of the Thesis is a distributor of electronics, it is essential to understand its role in a supply chain in trade and its main characteristics.

A supply chain is a system involving organizations, activities, people, information, and resources, which realizes a product movement from a supplier to a customer. In other words, it is a network between a company and its suppliers to manufacture and distribute a specific good and represents the steps of getting the product or service to the customer. It is a crucial process that helps to lower costs and fasten a cycle of production.

From the Figure 4 below you can see that usually, a supply chain of a product might involve from three to five participants of trade.

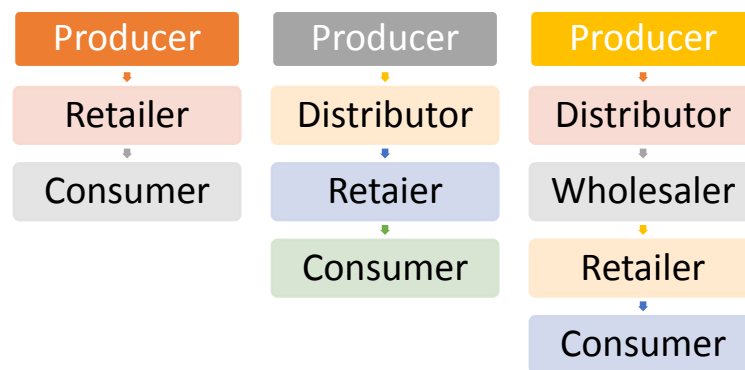


Figure 4: A supply chain

In fact, supply chain in international trade might be a very complex system of production movement, since it might involve other types of trade participants. It can be also called as a “product flow” and leads to the distribution channels. Distribution channels are defined as a chain of businesses or intermediaries through which a product or service goes until it reaches the end consumer. This chain might include distributors, wholesalers, retailers, and even the internet. Channels consist of direct and indirect forms. A "direct" channel allows the consumer to buy the product from the manufacturer, and an "indirect" channel allows the consumer to buy the good from a retailer or a wholesaler.

Such concepts as distribution, wholesaling and retailing are sometimes confused, although each of them plays its own role in a supply chain.

Distribution is spreading of the product throughout the marketplace available for buyers. Distributors usually have a business relationship with the manufacturers they represent. Big amount of distributors maintains buying agreements with a limitation of the number of participants or gives distributors the opportunity to cover a certain territory. Therefore,

such distributors become the producers' direct point of contact for prospective buyers of particular product (Quora portal). However, in most cases, distributors do not send the manufacturer's products directly to the consumers, but sell them to wholesaling and retailing representatives.

In its turn, a wholesaler is another type intermediary entity, which usually buys a lot of products from distributors, warehouses, and resales them. However, wholesalers and distributors often work together as channel partners.

Gerald Peck states that Wholesalers are required to make choices that influence the consumer. These choices define what specific items will be handled, how many can be physically handled, stored and protected. Thus, the wholesaler selects the goods that the retail customers want (Keely L. Croxton, Sebastián J. García-Dastugue and Douglas M. Lambert The Ohio State University Dale S. Rogers 2001).

Distributors and wholesalers usually sell all the goods to other businesses. Such selling process refers to B2B sales, which means business to business sales. Retailers are those intermediary entities or individuals, which turn this flow directly to the consumer or customer, thus, for their consumption, not a resale. This kind of intermediaries of distribution channels consist of small and large for-profit businesses, which buy small quantities of a product from a distributor or a wholesaler. Thus, while conducting purchasing of certain items, a retailer contacts a distributor and inquiries about the price to see it is competitive and might bring some profit.

To conclude, the difference between these three intermediaries participate in their business models and objectives of merchandising. In addition, business relationships and communication skills might play the main role in their business success.

Although internationalization is influenced greatly by other factors such as legislations, customer demand policies etc., supply chain management may be a significant impact on the entry of mode for a firm. Supply Chain allows companies to operate in their most beneficial area, exploit its external linkages, technical knowledge, managerial capabilities, innovation and export (Agostino et al., 2011; OECD, 2006).

Being an essential part of a supply chain, an SME can gain trust on the market and lower its costs. In fact, relatively less productive firms such as SMEs, which usually do not afford the costs of vertical integration into the new market, can gain trust, lower its costs and

avoid some risks of internationalization by becoming a participant in a supply chain (Gior-
gia Giovannetti, Enrico Marvasi, Marco Sanfilippo 2014, 2). In fact, Global supply chains
are one of the first methods used for activities in supply chain cost reductions.

According to the Supplychain-mechanic.com, the global supply chain provides firms with
the security of almost any good easy, since it was already manufactured or produced
somewhere else. Thus, now any item can be easily bought from a country of manufactur-
ing. Moreover, the international supply chain is able to operate on 24/7 basis, because of
the time differences in various countries. Therefore, the process of international trade in
supply chains never sleeps, people in different time zones constantly working, that defi-
nitely generates higher revenues of firms. (supplychain-mechanic.com)

While going through the internationalization process and at the same time being a part of
a global supply chain, SMEs should choose the most beneficial partnerships, distribution
channels, be flexible, always meet customers' demands, and constantly develop its
strengths, especially in risk management.

“Like in most other areas of business, with risk comes reward. If you're unprepared
and haven't covered all the bases, outsourcing supply chain management can throw
a wrench in your plans and hurt your overall efficiency. On the other hand, doing
your research and hiring the right organization can do wonders for your company. It
can make your life easier, reduce stress, and allow you to get more things done. It
can also raise customer satisfaction, drive higher profit margins, and fuel growth”
(Nick Mann).

2.4 Customer relationship management

Due to the challenging business environment faced by various organizations worldwide
today, the importance of customer relationship management (CRM) grows significantly.
CRM helps companies to operate on markets with high competition, changing economic
conditions and the business dependence through the use of customer knowledge.

CRM has a number of working definitions and in past its abbreviation meant Continuous
Relationship Marketing, Customer Relationship Marketing and Customer Relationship
Management. Thus, today Customer Relationship Management represents each of these
terms (Roger Baran, Christopher, Michael Zerres 2011). Customer Relationship Manage-
ment or CRM describes the interaction of a business with its customers. CRM is a com-
plex system, which involves such components of International Business as Marketing,
Sales, Order, and Support (Figure 5).



Figure 5: Customer Relationship Management system

Customer Relationship Management includes using technology, the main method of gathering the intelligence for improving services and support a firm provides to the customer (Queen's Printer for Ontario, 2013, 1). In other words, CRM can be understood as a data-base of information about a firm's customers. The process of working in CRM involves analyzing the data bank, generating the best strategy for applying the analysis on conducting business with customers, identifying potential customers and the effectiveness of your strategies, collecting new data on clients constantly. Therefore, by managing customer relationship, an SME is able to determine and meet its customers' needs. Moreover, with successful CRM, a company enhances its marketing efficiency, identifies future business needs, and increases its customer base. All these functions of CRM help a firm to raise its profits and build a strong brand image (Queen's Printer for Ontario, 2013, 2).

Technologic innovations, competitive environments, and the internet are several factors that make one-to-one initiatives a reality. By CRM companies are able to develop the relationships and customize the shopping experience, predict online buying patterns, attract customers with special offers or services, estimate the economic advantage of every customer. All those functions of CRM lead to building long-term mutually beneficial relationships. (Injazz J. Chen and Karen Popovich, 676)

The Customer Relationship Management data may include all business sales, promotions, activities of customer service, and transaction details (Shepard et al., 1998). Besides, CRM may include all other significant information regarding internal operations of the company such as account status, customer service interactions, product shipment, back orders, product returns, internal operating costs, claims history, deals, etc. A collection of this data helps a CRM specialist to understand the purchasing patterns of the customers (Injazz J. Chen and Karen Popovich, 678). In fact, maintaining a warehouse of customers' data eliminates emersion of duplicate information and calculate a value of each customer of the company.

According to Injazz J. Chen and Karen Popovich, retaining customers is more profitable than building new relationships. Thanks to CRM process, a firm is able to identify customers' needs, preferences, price sensitivity, buying behavior. Consequently, by understanding customer drivers and profitability, firms are able to tailor their offerings to maximize the overall customer portfolio value.

“Successful CRM is about competing in the relationship dimension. Not as an alternative to having a competitive product or reasonable price, but as a differentiator. If your competitors are doing the same thing as you are (as they generally are), product and price won't give you a long-term, sustainable competitive advantage. But if you can get an edge based on how customers feel about your company, it's a much stickier– sustainable–relationship over the long haul.” (Bob Thompson, CustomerThink Corporation).

CRM has a great value in internationalization process of each type of firm, whether it is traditional or born-global.

2.5 Methods of Payment

In order, to succeed in today's global trade and win sales against competitors, exporting companies should offer their customers attractive terms of sales along with appropriate methods of payment. The chosen payment method determines the firm's risks and its customer's needs. Sometimes it is difficult for parties to trade to decide on the method of payment since each of them follows its own aims. Exporters aim to sell a product after the payment is received, while the customer sees the payment before receiving the goods as a donation. Therefore, both exporter and importer tend to protect themselves from disputes and income loss. Therefore, each company's deal with its customer must include negotiations regarding the most desirable of four primary methods of payment, which are shown in Figure 6 below:

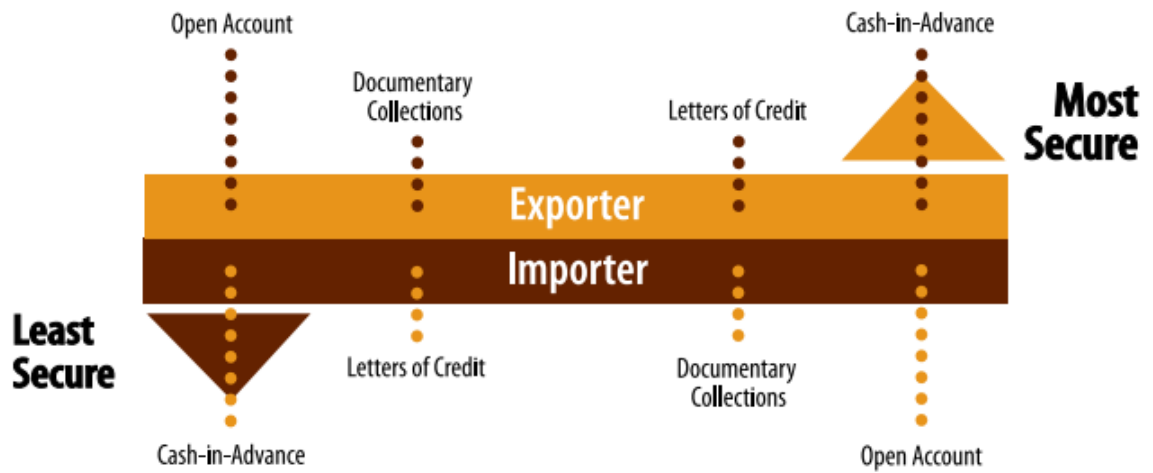


Figure 6: Payment Risk Diagram

Cash-in-advance. An exporter can avoid credit risk by using the method cash-in-advance, since in this case, the exporter received the payment before the ownership of the goods is transferred. Nowadays the most common options of the method for exporters are wire transfers (bank or credit transfer from one individual to another) and credit cards. The first option of the method, a wire transfer, is an electronic funds transfer across a network administered by hundreds of banks around the globe. An international wire transfer is commonly used for immediate individual transfers of funds from an importer to an exporter. At the same time, this option is efficient in terms of fast and secure movement of money and allows people in different geographic locations to transfer money to other places and financial institutions. In order, to implement such a wire transfer exporters must provide clear instructions of routing to the importer, which include name, the address of the receiving bank, bank's SWIFT or ABA number if the receiving bank is located in USA. Besides, the seller's name and address, the title of the bank account, and account number must be provided to the sending wire transfer bank. However, there is one disadvantage of this option and it is a fee usually paid by the sender.

A credit card is another feasible option of the cash-in-advance method of payment. It is mostly used for consumer goods or small transactions. Before using this option of payment, exporters should check their company's credit card rules on international use, since the governance of international credit card transactions differ from the domestic ones. Moreover, the sender of payment should take proper precautions to determine the validity of transaction before the shipment of goods, since international credit cards are generally placed via online, telephone or fax methods and this fact attracts facilitation of fraudulent transactions. Regardless of how this option of payment might be dangerous or a number of fees that may be charged by credit card companies, credit card transaction may help the business grow because of its easiness and fast process.

The third option of the method, escrow, is becoming more and more popular for small export transactions, thanks to the developments of the internet. Escrow is a contractual agreement between exporter and importer involving a third party, which receives and pays out money or documents for the primary transacting parties. Its disbursement depends on conditions agreed to by the parties of a transaction. This way, if one party does not follow the terms of the agreement or any dispute between the parties arises, escrow works towards the resolution of the dispute. It is an account established by a broker for funds holding on behalf of the broker's principal or another individual until the transaction is completed. (Wikipedia). Thus, both parties of the Escrow Agreement can be sure that the assets and funds are transferred to the account of escrow and will be released as agreed and stated in the Escrow Agreement. (<http://transfersolutionsllc.com>). A simplified process of Escrow functions includes two parties of the agreement, escrow agent and escrow account (Figure 7). (Transfer Solutions LCC)

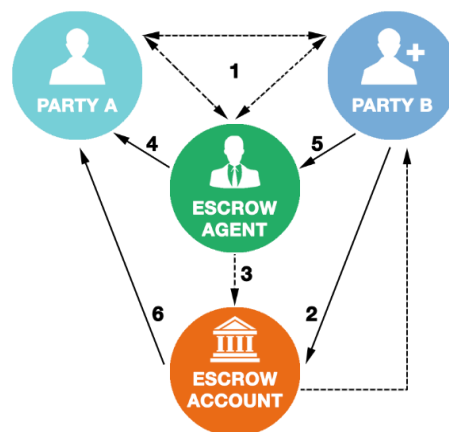


Figure 7: The Escrow Process

1. As it is described, the first step of using the Escrow services is signing Escrow Agreement of both parties
2. Party B deposits escrow obligation to Escrow Account
3. Escrow Account is managed by Escrow Agent
4. Escrow Agent confirms escrow obligation receipt to the Party A
5. Party B accepts delivery and the proof of acceptance is sent to the agent of Escrow
6. Escrow agent releases escrow obligation to the Party A

Transfer Solutions LCC

However, cash-in-advance method, the most attractive payment method for the exporter, is the least attractive option for the buyer of goods or services. Firstly, it creates unfavorable cash flow. Secondly, foreign buyers are concerned that the products may not be sent

to them if the payment is made in advance. Usually it is the reason of mistrust, existing in the first time collaboration of parties. Therefore, while insisting on this method of payment, exporters may lose their clients to competitors offering more attractive payment ways (Trade Finance Guide by the U.S. Department of Commerce 2007, 5).

To conclude, cash-in-advance method is the best solution under these circumstances:

- The importer is a new client and/or its operating history is less established.
- The creditworthiness of the importer is doubtful, unsatisfactory, or unverifiable.
- The commercial and political risks of the importer's home country are very high
- The product of the exporter is unique, in a high demand, or not available elsewhere.
- The exporter's business operations are based on the internet, which requires a convenient payment method as a competitive advantage on the market.

(Trade Finance Guide by the U.S. Department of Commerce 2007, 8).

Letters of Credit or LCs. The second method of payment are Letters of Credit or LCs.

This method of payment is one of the most secure instruments accessible to international traders, since they can avoid the risk of non-payment and credit risk. Generally, a Letter of credit is a commitment by a bank on the buyer's behalf that the payment will be made to the exporter if all the terms and conditions stated in the LC are met. Before the payment to his or her bank for providing the service, the buyer establishes credit. Thus, letter of credit protects the seller from nonpayment and the buyer from non-shipment of the goods. This method of payment is one of the most secure instruments accessible to international traders, since they can avoid the risk of non-payment and credit risk. This method of payment is one of the most secure instruments accessible to international traders, since they can avoid the risk of non-payment and credit risk. To conclude, this payment method protects both parties from non-fulfillment the obligations and promises regarding the trade. LCs method is recommended to use in relationships or export markets, which involve a high risk of trade. Especially, it is commonly used in internet-based businesses.

Letters of credit method may be issued in two types: revocable and irrevocable. Most LCs are irrevocable that means they can not be changed or cancelled without the agreement of both parties. If the LC does not touch the question if the payment revocable or irrevocable, it is automatically considered as irrevocable letter. In most cases revocable letters of credit are used between parent companies and their subsidiaries, which are conducting business across the borders.

Before using LC, an exporter should:

- Consult with its bank about the terms of LC
- Consider what kind of LC is needed
- Negotiate with the importer about the terms of LCs
- Determine correct time limits for LCs terms

(Trade Finance Guide by the U.S. Department of Commerce 2007, 8).

Documentary Collections. The third method of payment is Documentary collections or D/C. It is a transaction, by which the exporter assigns the responsibility of the payment collection for the sales to the remitting bank. In its turn, this bank sends all the needed documents to the importer's/collecting bank, in order to release the documents to the buyer for payment. This way, the funds are received from the importer and sent to the exporter through the banks' operations of collection the exchange documents (Figure 8).

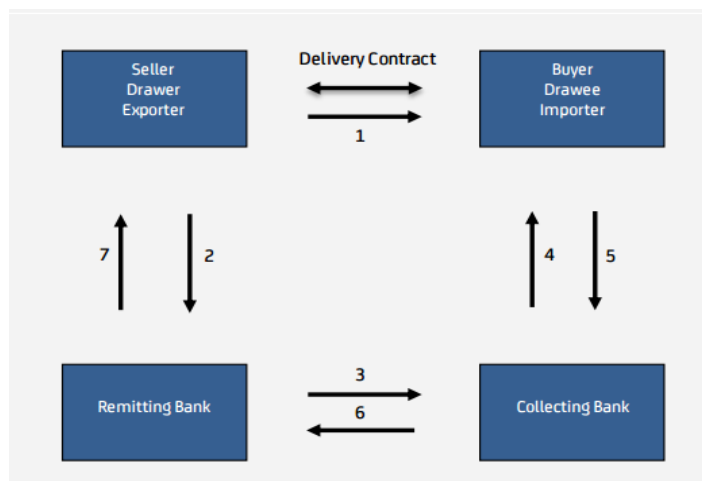


Figure 8: Flowchart of a documentary collection (UniCredit Bank AG, Munich 2012)

The importer can pay the amount for the products in two ways: document against payment or document against acceptance. In the case of a document against payment, an exporter instructs the presenting bank to deliver shipping and title documents to the importer of the product when the importer pays a full payment of the exchange bill or its draft. Document against acceptance is the case of payment method when an exporter instructs the presenting bank to deliver shipping and title documents to the importer of the product when the importer accepts the exchange accompanying bill or draft by signing it (Businessdictionary.com).

According to Swedbank, "In the case of collection, the buyer is the one who decides over the documents' compliance or non-compliance with the contract and assumption of the payment obligation. When refusing the collection

documents the buyer can always refuse payment of the service fees relating to the collection order.”

Open Account. The least attractive method of payment for an exporter and most beneficial for an importer is Open Account. This process of exchange brings the highest risks for a seller since the payment is transferred only after the products are shipped and delivered to the importer, typically in 30, 60 or 90 days since the delivery has been done. Obviously, Open Account is defined as the most advantageous option for the importer in terms of costs and cash flow. Although it is a risky payment method for an exporter, often buyers are able to set the open account due to the high competition between the exporters, especially in deals with foreign exporters. However, even though exporters are sometimes compelled to extend the credit, they may use the appropriate trade finance techniques for mitigating the possible risks such as non-payment from the buyer (Trade Finance Guide by the U.S. Department of Commerce 2007, 4).

In fact, an open account method is mostly used in trade between the parties, which already have established a secure working relationship by previous deals. Another reason could be the buyer's good reputation and popularity in the market. Sometimes sellers do not want to assume the risk related to the open account method because of the particular country of the buyer. (Trade Payment Method, Daniele Giovannucci, 8)

PayPal. Usually, companies use basic methods of payment described above. However, many new or small businesses such as start-ups might use alternative payment methods, due to their conveniences. One of the most secure and trustful alternatives of payment methods is PayPal.

PayPal is the largest debit payment system, which allows its clients to send and receive payments, conduct payment transfers. The company was established in the USA in 1998 and became a subdivision of eBay company in 2002. The company has become one of the most trusted online platforms for payments. Its services allow businesses and individuals to avoid high monthly and transaction fees, while accepting both credit and debit card payments, conduct online shopping with security. The platform is available for personal and business accounts, offers its own PayPal cards, a revolving credit line, and business loans. In fact, the payment system allows you to send and accept payments in foreign currency, which process with currency exchange is handled by PayPal for minimal fees. An SME can suggest its customers conduct international payments via PayPal, since the platform is easy to use, gives easy access to funds and minimizes costs of the payment transactions. Users can send money using the only email address or e-commerce fea-

tures such as buttons on the seller's website. Once the payment from the customer is received through PayPal, the firm is able to withdraw it to its business bank account (PayPal for sellers, Welcome Kit, PayPal).

Moreover, payments via PayPal are quick and protected by the platform, and in case the buyer paid for the goods, which delivery did not happen or the product does not satisfy the buyer, PayPal will help to resolve the dispute between the exporter and importer. However, PayPal is not a bank, therefore, it does not stick to the regulations or laws banks set. Thus, PayPal deposit insurance protects you only against the bank failure at which PayPal places your funds, it does not protect its client from the platform's insolvency. One more fact to consider before using PayPal as a platform for payments, any individual or a business should take into account PayPal's right to "freeze" the user's account. Usually the reason of such blocking the account is used for protection of the account from fraud and investigation on the possibility of its unlawful behavior. Sometimes accounts stay frozen for hours, in some cases for months, which, of course, might affect the whole payment system between both seller and buyer significantly. (PayPal for sellers, Welcome Kit, PayPal). Considering the fees, they vary depending on the country and its currency (Figure 9).

Currency	Fee	Currency	Fee
Australian Dollar:	0.30 AUD	New Zealand Dollar:	0.45 NZD
Brazilian Real:	0.60 BRL	Norwegian Krone:	2.80 NOK
Canadian Dollar:	0.30 CAD	Philippine Peso:	15.00 PHP
Czech Koruna:	10.00 CZK	Polish Zlotych:	1.35 PLN
Danish Krone:	2.60 DKK	Russian Ruble:	10 RUB
Euro:	0.35 EUR	Singapore Dollar:	0.50 SGD
Hong Kong Dollar:	2.35 HKD	Swedish Krona:	3.25 SEK
Hungarian Forint:	90 HUF	Swiss Franc:	0.55 CHF
Israeli Shekel:	1.20 ILS	Taiwan New Dollar:	10.00 TWD
Japanese Yen:	40 JPY	Thai Baht:	11.00 THB
Mexican Peso:	4.00 MXN	U.K. Pounds Sterling:	0.20 GBP
Malaysian Ringgit:	2.00 MYR	U.S. Dollar:	0.30 USD

Figure 9: PayPal fees, PayPal

The commissioner of the Thesis mostly uses PayPal and Escrow services. According to Anna Oshkalo 2011, WebMoney is another method of online payment in Russia. It is a PayPal clone, a system of payment, which is targeted primarily at the Russian market.

Moreover, Yandex provides an alternative method of online payment, which is called Yandex.Dengi.

“I’ve never used it myself, to be honest, but it seems to be relative big and have partnerships with the major mobile operators, online retailers and airlines” (Anna Oshkalo).

Companies are used to paying in advance and will not be surprised if a foreign company asks them to pay according to these terms of payment. Often the entire payment or, at least, 30% of it, is made before the goods are delivered. The rest of the payment amount is usually paid by bank transfer after the goods are delivered. “The letter of credit is only used in highly specific transactions due to the risks limits established by banking entities and international organizations (such as the OECD) for covering risks with Russia” (Global negotiator portal). Russian companies are used to operate in dollars, though it is not a problem for them to use euros as the main currency of a contract.

3 The Context of Russian as a market for electronic components

This chapter of the Thesis will provide the reader with the most recent and short but instructive knowledge in the spheres of Russian Federation, which influence any business operation of every local and foreign SME. In other words, PESTEL, an analysis of external factors, impacts or disciplines affecting the organization's operations in an environment is conducted. Each section of the chapter represents the exact environment of Russian Federation whether it is a political or economic situation in the market. PESTEL analysis will provide the reader with comprehension of the Russian market needed for an entry mode. All information regarding Political, Economic, Social, Technological, Environmental, and Legal issues are studied according to the latest reports and economists.

3.1 Political factors

Concerning the internal political risks, Russian Federation businesses operate in a systematic favoritism. Usually domestic business is dominated by state-owned enterprises that are located in such strategic sectors as energy, banking and transport. The key position in companies' structures are often occupied by senior state officials at the federal and regional levels. These officials often serve or chair the boards of directors in the company, that provides a controlling share to the state. As the Russian government claims, placing officials on the boards of enterprises is necessary to defend the state's interests and improve the effectiveness of a company's management. However, Russian critics affirm that by rewarding its most loyal officials, the political leadership has developed a lucrative patronage system, which ensures only its own political support. Thus, some part of political and economic power in Russia is shared by oligarchs, the businessmen who bought the assets from the states and cooperate with them. Definitely, such patronage relations complicate entries to the market and impede competition significantly. (Julia Kuszniir 2016, 2). However, in recent years Russia set specific rules, normative regulations and procedures for fighting against corruption. Besides, Russia has signed and ratified various international conventions, has become a member of a few international anti-corruption structures and has implemented some initiatives of OECD (Organisation for Economic Co-operation and Development) and WTO (World Trade Organisation). Although anti-corruption campaigns have been run and legislation changes took place, it is hard to say if the situation changed positively. Some activists and critics say the anti-corruption cases are politically motivated, for instance, for eliminating the states' opposition (Julia Kuszniir 2016, 3).

Corruption is always a constituent of Russian environment in all spheres. In fact, paying bribes became a social norm in some aspects. Mechanisms of corruption mitigate the transition costs from the planned economy system to market relations. Besides, it helps a person to survive in daily life. In some situations, information mechanisms are more efficient comparing to the formal rules because of the money and timesavings. It occurs due to the constant changes of official rules, so informal mechanisms play a role of an insurance that helps to reduce the unpredictable risks' role. Furthermore, in some cases corruption arrangements help businesspersons and officials to defend themselves against expulsion by other corrupt players in the market (Julia Kuszniir 2016, 2).

The recent crisis in Ukraine led to the impairment of the relationships between Russia and the West world. Especially, the relationships between Russia and Germany worsened significantly. However, Berlin still perceives Moscow as a central actor in the European security and has promoted the most extensive dialogue as possible. Thus, it is obvious on the political arena that the main solution of collapse of the bilateral partnership in its previous form is to move forward through negotiation and cooperation (European Parliament 2017).

From the Russian point of view, sanctions (that were mentioned a several times in the Security strategy as "restrictive economic measures") are the main component of the Europeans' current alignment on the United States strategic approaches. Besides, the significant impairment in relations with Germany and France contributed to the interpretation of the degradation of Russia-EU relationships, according to the European Parliament 2017. Besides, Russia remains concerned about the power that could be applied successfully to some of its neighbours, including some instruments of the Eastern Partnership and adonisation agreements. This way, Russia perceives the European Union as a geopolitical competitor in the post-Soviet space, and is afraid that its neighbours might be absorbing EU norms and standards gradually and Russia might reduce its influence such as investment schemes over those countries (European Parliament 2017). Besides, Russia sees the European Union as a strategic continuation of the United States and NATO, associated with the representation of military changes and hard security problems (European Parliament 2017). It is clear that Russia is hoping that some European states will be willing to attenuate the sanctions regime for the developments in extensive cooperation over the time. At the same time, European Union will continue to find it more comfortable to leave the cooperation issues with Moscow to the member states, because of the fear of spoiling its consensus on Russia. In some terms of a strategy, the EU could consider developing interaction with the Eurasian Economic Union (European Parliament 2017).

The Foreign policy concept of 2016 stresses that “the ‘the Russian Federation is committed to maintaining intensive and mutually beneficial dialogue with the EU on key items on the foreign policy agenda, as well as further promoting practical cooperation on foreign policy, military and political issues”. Besides, the Foreign policy underlines that Moscow is interested in stable, predictable and constructive cooperation with the countries of the European Union, which should be based on the principles of equality and respect for the interests of each other (European Parliament 2017).

3.2 Economic factors

It is expected that import indicators will be increasing in 2017 on a very low base, supported by improvements in domestic demand, inventory restocking especially. Consequently, the contribution of imports to growth will be negative and will outweigh the positive exports contribution. Those factors will lead to the overall negative contribution of net exports to GDP growth in 2017 and 2018 (World Bank Group 2016, 30). According to the Wells Fargo Securities Economics Group 2017, Russian economy expanded 0.3 percent in the fourth quarter of 2016 year, snapping a two year streak where GDP growth was negative every quarter. Examining the trends of GDP components suggests that the economy of Russia has bottomed out and should return to the positive indicator of GDP growth through 2017 and 2018, which can be seen in the Figure 10.

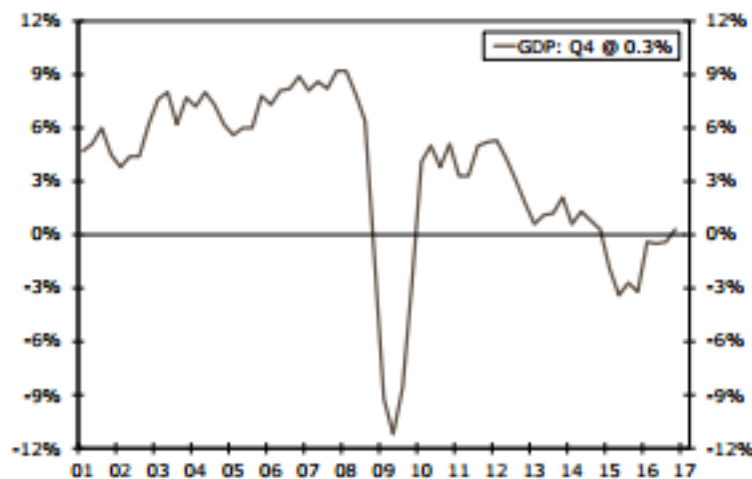


Figure 10. Russian Real GDP Year-over-Year Percent Change

Exports of Russia are constantly growing, increasing 3.7 percent on the quarter, however, the contribution of trade to GDP is largely function a function of Russia’s import sector weakness. Imports contracted 25.8 percent and 3.9 percent in both 2016 band 2016 years. Although it is expected that import indicators will return to the positive level in the

second quarter in 2017, net exports are expected to continue their growth (IHS Global Insight and Wells Fargo Securities).

“Nonetheless, Russia’s trade balance in September grew to \$7.4 billion from August’s \$4.9 billion as both export and import values bested consensus forecast expectations. Relatively high oil prices in Q3, compared to the previous quarter, certainly helped boost the total value of Russian exports”, according to IHS Global Insight and Wells Fargo Securities 2017.

Regarding the Russian currency, its value traces the oil price closely, since it is the most important product for Russian export. Thus, Russian ruble depreciated sharply after the prices of oil fell in 2014 as a political instrument against Russian actions during the crisis in Ukraine. The Russian currency is down roughly by 60 percent against the dollar since 2014. The weakness of ruble explains the prolonged softness in the sector of import. The fluctuation of ruble currency in 1998-2017 can be seen in the Figure 11. (IHS Global Insight and Wells Fargo Securities 2017).

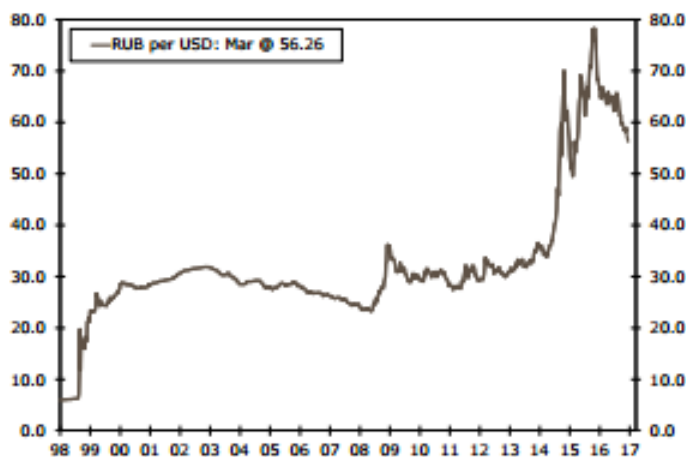


Figure 11. Russian Exchange Rate. RUB per USD

As Trading Economics states, long-term forecasts of ruble exchange rates are virtually impossible, due to high volatility. The official exchange rate may be forecasted maximum half a day in advance before being setting on base of stock exchange rates.

The rapid rise in inflation impeded the growth in consumers’ real disposable income, meanwhile the consumer price index in Russia suffered significant fluctuations (IHS Global Insight and Wells Fargo Securities 2017).

IHS Global Insight and Wells Fargo Securities 2017 states, “Further weakness of the ruble could stoke inflationary pressures again, which could weigh on real wage gains. If inflationary pressures return as a result of a weakening ruble, the central bank may adjust its policy and raise rates – certainly not an encouraging scenario for business investment”.

Meanwhile, the Russian economy is recovering from the recession, imports sectors increases by 38.9 percent in January to a total USD 13.7 billion, that reflects the healthy state of domestic demand. The increased imports drove the trade excess to a total of USD 11.4 billion, and this indicator was larger than the USD 7.2 billion surplus in January of 2016 (Focus Economics 2017).

It is important to mention that although Russian Federation is facing a crisis in economy now due to the recent events in global policy, predictions on its reflection on the global oil price reduction by European analysts in 2014 was much more pessimistic.

It can be described as the avoidance of global oil shock, which may be explained by two factors. The first factor is determined by country's accumulation of substantial gold and foreign currency reserves during the years of increase in oil prices. Businesses had acquired sufficient fixed assets, when the public had collected over \$250 billion in bank savings and probably as much in cash. People started to buy the real estates as soon as possible as the way to secure their savings. Besides, population of Russia had stocked up on durable goods, and housing space doubled in the years of high growth. One of the most negative important results of the crisis is that inequality in Russia has increased over the time that left the majority of citizens accustomed to a poverty state. Secondly, Russia's cross-border capital flows are not restricted, it does not have exact price control on most goods and services, wages are set according to the market forces, the ruble exchange rate is identified in the free market, with partial intervention by the Central Bank of Russia (Andrey Movchan February 2017, 11).

According to the World Bank Group 2016, the sanctions applied by the U.S. and the European Union, will be extending. Therefore, it will limit access of Russian financial institutions to the capital markets on international arena. Besides, the economic perspectives for major advanced and emerging economies have become progressively worse amidst the weakness of global trade and manufacturing activity. Decline of economic prospects also affect Russia's key trading partners negatively. Thus, those countries cannot contribute to the recovery of Russian economy significantly.

The forecast of monetary policy forecasted to be continued tightly. The key rates of The Russian Central Bank will be significantly higher than the inflation rate, therefore, the banks' interests will be even less affordable for retail borrowers. Besides, the increase in taxes and a transition to a gradual budget consolidation are expected. The indexation spending will lag far behind the inflation, which implies a "freeze" or a nominal cut back on

other non-social expenses of lower priority. (D. Belousov, E. Abramova, A. Apokin, K. Mikhaylenko 2016, 6). All these possible events only continue companies' cautious in their remuneration policies. Increase of real wages goes along with the productivity increase (D. Belousov, E. Abramova, A. Apokin, K. Mikhaylenko 2016, 7).

The main destination of Russia's commodity goods is European Union, which external demand growth was slower than earlier anticipated, and is expected to remain modest in near future. China, the second largest market of export for Russia continues its gradual slowdown and rebalancing to a new model of development. Meanwhile, the growth economy of U.S. slowed down in 2016 and is expected to be even slower, which causes its role diminishing as one of the major export destinations for goods and services of Russia (World Bank Group 2016, 27).

3.3 Social factors

First of all, any foreign SME should focus on close personal relationships with Russian trading partners. In this country networking and extended interpersonal allegiances play a huge role in generating profits. Moreover, strong relationships with the customers provides trust in the trade agreements. Since many Russian laws are being rewritten constantly and sometimes require right level of political influence, most agreements have to be made on a trust basis, which is a key element for self-interest (Global Business Culture). Therefore, the lifestyle of Russians as a nation, can be characterized as a non-individualistic.

As it is stated by Go Russia Travel Company , "In Russia, it is necessary to know people in power to make things work. This is why Russians maintain more friendships than an average westerner. If you know the right people, you can arrange the most difficult things with little effort".

Concerning the structure of any business in Russia, it is essential to remember that companies here tend to be controlled by one strong central figure who makes strategic decisions with little or no consultation at all with anyone else except a handful of close trusted advisors. This way, while dealing with potential Russian customers or join-venture partners, it is necessary to make sure that you are dealing with the right person of the company. In other words, it is more efficient to "go straight to the top of the company". (Global Business Culture). Such phrases as "we will try to finish the work on time" or "perhaps it will work" should be perceived by Western SMEs as the willingness to commitment and cooperation, not lack of interest from the company (Culturewise Ltd, 4).

Hard selling techniques should be avoided while attracting potential clients. Besides, patience is very important while dealing with Russian customers, since negotiations and decision-making process can often be slow. Russian entrepreneurs do not make immediate decisions in a meeting after which a certain amount of deliberation is done in private (Today Translation agency).

The key rates of population, density and age distribution are described by the authorized Worldometers portal:

- The current population of the Russian Federation is 143,379,255 as of Wednesday, June 7, 2017. The information is based on the latest United Nations estimates
- Russia population is equivalent to 1.91% of the total world population
- Russia ranks number 9 in the list of countries by population
- The population density in Russia is 9 per Km² (23 people per mi²)
- The total land area is 16,299,981 Km² (6,293,455 sq. miles)
- 73.2 % of the population is urban (104,883,814 people in 2017)
- The median age in Russia is 38.9 years.

Education and Cultural facilities within the country are widely available, thus, Russians may be considered as a highly cultured nation. The mandatory primary and secondary school lasts for 11 years, and includes such programs as History, Literature, Music and Geography. A foreign language, usually English, is studied for 6 years, although several European language such as French, German and Spanish are sometimes also available in school. Having a college or university degree is widely common in Russia, and more than 40% of the total population those degrees. Since Perestroika, the system of higher (university) education is slowly deteriorating along with the health care system, which used to be among the world's best in past. The problem with the Russian education system is that it was always rather theoretical and mostly unrelated to practice. Therefore, it is common for a person with an engineering degree to work in sales, or one with a chemical background to find himself in marketing. Besides, having a Ph.D. is also not a big deal, since it does not give you a big advantage; good knowledge of English will provide you with a better competitive edge. Foreign companies and organizations are considered to be the best places of employment (Go Russia Travel Company).

3.4 Technological factors

In the early 80's of the last century USSR along with the United States and Japan was in the top three countries-world producers of microelectronics. In fact, the focus of USSR in

this field was not the consumer electronics, but a strategic productions of electronic components for military and aerospace purposes. However, after the collapse of the Soviet state development of microelectronic industry in the Russian Federation was frozen. Moreover, reinforced by destructive processes in 90's Russian technological backwardness led to almost complete dependence on countries from western radios and microelectronic technologies. Share of imports in the domestic market increased to 90-100%, including defense needs of its industrial complex (Russian National Research University, Higher School of Economics 2016). The level of technological backlog was estimated in dozens of years. Microelectronic plants had been producing simplified production by copying Western technologies. The taken measures for rebooting of this industry made it possible to reduce the technological gap. In particular, the acquisition of basic Nano technological production: IBM, ARM, STMicroelectronics etc. Moreover, Russian plants started to manufacture their own developments, thus the level of technological backwardness started to decrease. However, according to the pessimistic opinion of microelectronics experts, today gap level between Russian and foreign technologies is still significant and can be 5-10 years for various groups of electronic production. Today, regarding technological level and domestic electronic components continue to cede to foreign manufacturers. (Russian National Research University, Higher School of Economics 2016).

In fact, Russian Federation has relatively modern semiconductor productions (although they do cede to foreign samples) and develops a wide nomenclature of electronic components; new federal programs are being released and the strategy of the industry's development has been elaborated. Nevertheless, significant corrections in microelectronic industry have been brought by sanctions of Western countries against Russian Federation in 2014-2015 years. For example, in 2014 USA banned the supplying Russian Federation with key radio-stable microelectronic components for Russian satellites and military equipment. Although some alternatives for such type of microelectronics were found, the aerospace and defense sectors of Russian Federation can be affected negatively in future. Besides, these sanctions are the threat to the cooperation of Russian and Western experts and technologies in the joint researches, which does not help Russian microelectronic sector to develop and grow. In addition, negative dynamics of the microelectronic industry is caused by the phase of total sectoral reboot and extremely high dependence on the government orders on the domestic sales market. At the same time, the prices of electronic components in Russia increased due to the dollar growth and the fact that the biggest share of primary recourses are purchased from abroad. (Figure 12). (Russian National Research University, Higher School of Economics 2016).

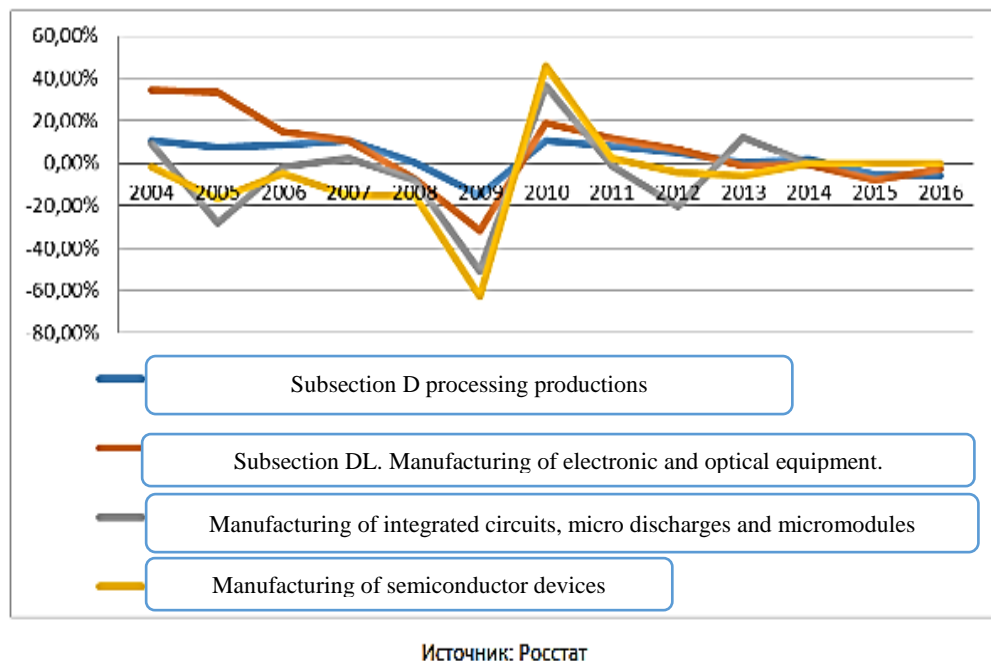


Figure 12: Russian Federation Federal State Statistics Service. (Russian National Research University, Higher School of Economics 2016).

Regarding the export situation of microelectronics and regardless an extremely low share of presence on the world market, it is constantly increasing, and Russian consumer and industrial electronics (especially microprocessors) became a key non-primary export in 2015 year. (Russian National Research University, Higher School of Economics 2016). Moreover, almost 100% of microprocessors was exported to Germany, as the World Trade Center in Moscow states.

According to the Ministry of Industry and Trade of Russia, now Russian domestic producers fulfill only 16% of the complete internal demand. The key suppliers of electronic components are foreign companies, predominantly, from Asian countries. Figure 13 shows the main industries that use microelectronics in Russia.

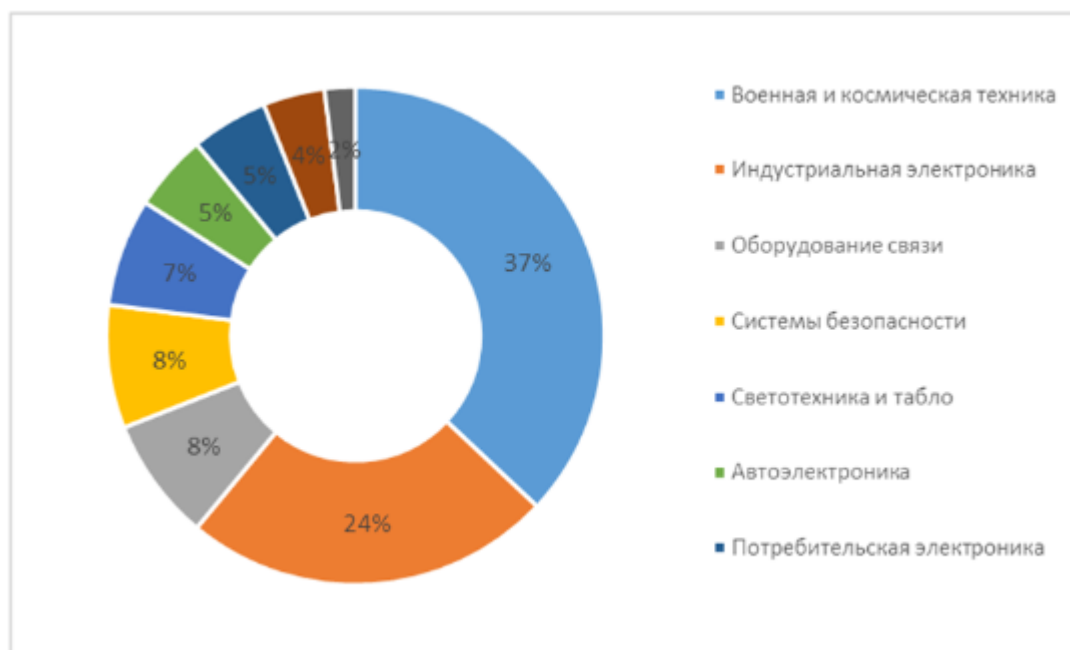


Figure 13: Informational & Analytical Center of Modern Electronics 2016

Now Russian Federation realizes a strategy of import substitution due to the political and economic changes on foreign and domestic markets. It is creating more and more educational places and tries to specialize primarily in the developments of elementary components for the civilian directions: telecommunications, transport, electronic documents and financial sector (Russian National Research University, Higher School of Economics 2016).

3.5 Environmental factors

Trade liberalization and privatization led to a flurry of new small firms in various sectors, especially fishing, mining, and forestry. These companies have proven difficult for the government to regulate effectively, including budget constraints, inconsistent enforcement of Russian laws, and the extended weakening of government environmental organizations. This has become more complicated by “institutionalized” corruption that was, in part, initially spawned by shortfalls of budget. To supplement budgets, some regulatory agencies have resorted to commercial activity.

“Numerous local branches of the Forest Service, for example, now spend less time regulating timber operators and more time harvesting timber themselves, disguising their illegal harvesting as salvage logging (Smirnov et al. 2013). Indeed, the greatest obstacle to reform may be corruption in the regulatory agencies themselves. For corrupt officials, bribes and illicit business are highly lucrative”, as it is stated by Joshua P. Newell & Laura A. Henry 2017.

Russia's economic dependence on international markets for its natural resource exports provides its governance mechanisms to shape how the country manages its globally important base of resources. As Bradshaw and Connolly (2016, 17) note, Russia, like the Soviet Union before it, is "a price taker, not a price maker on global natural resource markets." As such, they are sensitive to the shifting demands and preferences of these consumer markets; this includes responsible sourcing practices, ranging from transparency and legality to sustainable environmental management, including certification. The expansion of forest certification and CSR initiatives provide clear evidence of this fact. Indeed, this complex economic interdependence with the world outside – stitched together by oil and natural gas flows, timber, and precious metals. Those resources are as much drivers of unregulated and illegal resource use as it is a potential solution. Using these market levers represents an significant mechanism to foster the use of sustainability and protection of one of the wildest, largest, and ecologically vital regions left on the planet (Joshua P. Newell & Laura A. Henry 2017).

3.6 Legal factors

The Constitution of the Russian Federation ("the Constitution") was adopted by National Referendum on 12 December 1993. The Constitution determines the sovereign power of the Russian Federation, describes its federal structure, governing system and the principle human rights of Russian citizens. The Russian Federation is governed by a political system modelled after many currently existing in Western Europe. This system of governance is composed of three branches: the executive, legislature and judiciary.

The Russian legal system is based on the Civil Code as in most European countries, especially in Germany, which has the most common sense with Russian Federation. The main values of the system are the supremacy of the Law and the civil laws coding, as against judicial practice and customs, which are considered as more typical of the Common Law systems found in English-speaking countries.

In relations of commerce between foreign and Russian companies, usually foreign companies take initiative in drawing up contracts, which should be adapted to Russian laws and practice. The most relevant type of contract the commissioner can use conducting business with Russian customers, it a Purchase Agreement, which should be adapted to the Vienna Convention standards regarding the International Purchase and Sales of Goods. In order, to enter into the contract, before signing the contract with the

Russian company, the commissioner can check the legal standing of that entity, therefore, ask for the following documents:

- State Registry Certificate of the Company
- Tax Authority Registration Certificate
- License, if it necessary.

(Global negotiator portal)

According to Russian laws, if the company does not have a license or the document is invalid, this company is not authorized to sign the contract.

In case of any dispute with the Russian company, the commissioner can contact the Chamber of Commerce and Industry in Moscow. This institute is the most prestigious court of arbitration in Russia, which examines economic disputes between foreign and Russian companies. The London Court of International Arbitration and the Arbitration Institute of the Stockholm Chamber of Commerce are the best options for resolving disputes involving Russian companies outside of Russian borders.

It is always important to sign the contract with the official representatives of the company. Thus, branches and representation offices of firms and organizations are not considered to be legal entities. According to Russian laws, contract is not valid if it was signed by a director of branch or representation office without powers of attorney. To conclude, drawing up and signing international contracts with Russian companies, its commercial practice is fairly similar to other European countries, although has some significant differences in the system. Foreign companies are recommended to use contracts in a dual English-Russian version, since it will be helpful in negotiating and ensuring compliances of the agreement.

Currently Russia in the middle of significant tax reform. In August 2000 Part II of the Tax Code was made law and in January 2001 became effective. However, many tax regulations are still in transition. The main taxes currently are:

Profit tax. It is levied on an enterprise's gross profit. The general tax rate is 24 per cent of profit gross, though this is subject to various exceptions.

Personal income tax. Personal income tax is determined at a flat rate of 13 per cent.

Land and property taxes. Land and property taxes are imposed by the local or regional authorities at a rate dependent on the property's location (Mondaq).

Value added tax. ("VAT"). VAT is calculated on the sale value of goods, services or works at a general rate of 18 per cent, a certain exceptions subject. Imported goods are also subject to VAT.

Excise Tax. Excise tax is collected by the states on the sale or import or export of certain goods (alcohol, tobacco, cars, oil, gas, etc). The tax rate varies for each product (Mondaq).

3.7 Summary of the Russian business environment

Russian Union of Industrialists and Entrepreneurs (RSPP) conducted the survey «Evaluation of Russia's business environment». FleishmanHillard Vanguard saw significant improvement of assessment of Russia's business climate by foreign businesses. 23% of the respondents thought it improved in the past year that is almost 4 times higher comparing to a year ago when this index was 6% (FleishmanHillard 2017).

Regarding the factors that can stimulate foreign companies to do business in accordance with social responsibility principles, respondents noted an increase in the transparency of processes (60% in 2016, 69% in 2015) and overcoming the practice of excessive regulation (50% in 2016, 27% in 2015) (FleishmanHillard 2017).

Therefore, although recent economic crisis in Russian Federation took place, the country has been identified as a high-growth potential market with opportunities in various sectors such as banking and finance, technology and computing, education and infrastructure development.

4 Research approach and methods

This chapter presents to the reader the main approaches and methods used in the research paper. Its sections explain the key elements of the research tools and the reliability and validity of the empirical research results. Besides, the respondents' short background is also provided in the chapter, since it proves the transparency of the research conclusions and recommendations in the next chapter.

4.1 The research approach

The research approach is used for the empirical research of the Thesis is quantitative research, which includes data from interviews with experts in the field of international trade and policy. The method of research approach is mixed since the author would like to obtain opinions and views from outside and inside of Russian international trade. The outcome of the research is expected to provide the opinions of interview respondents and the author. Conclusions and recommendations for the commissioner will be based on the Theoretical framework, context of research and empirical part comprised of the interviewing results.

4.2 Data collection

In the empirical part of the Thesis, the researcher will conduct three face-to-face semi-structured interviews, in order to receive respondents' replies regarding the research problem. The respondents of the interviews are experts in trade policy and international payments: representative of customs sector and Gazprom Bank representative.

The interview questions for each respondent will vary insignificantly depending on the working field of each expert. Thus, the questions for the customs expert will differ from the questions for the other respondent of the interview, Gazprom Bank representative.

The interview with the customs expert took approximately 40 minutes, while the interview with the representative of Gazprom Bank took 20 minutes.

Each of the respondents replies to the questions the interviewer has planned beforehand, which allows the researcher to gain new information concerning the research subject and collect experts' opinions and recommendation for the commissioner.

4.3 Data analysis process

Two interviews with both experts from banking and customs sectors were conducted in the Russian language on the Russian Federation territory. Therefore, all the questions

and replies were recorded, translated into English language and transcribed by the researcher into the empirical part of the research. All the data gained from the interviewing will be collected and used for the final analysis that confirms the validity and reliability of all interviews. Moreover, all the respondents gave the researcher with a permission to state their names and positions in the research paper, which only proves the transparency of the researcher's studies.

4.4 Reliability and validity

Reliability refers to the determination of the research credibility and values brought to the reader. This subchapter will provide the critical sources of the research, supervisors, co-operator throughout the research process.

In the beginning, it is important to set research questions, research methods and tools, and timeline. All those components were prepared under the agreement with the supervisor and the commissioning company, ML Components GmbH. The research process is supervised by Evariste Habiyakare. Work experience and facing the research question during the work, helped the researcher to formulate the Thesis problem clearly and select the right sources for investigation of the issue.

Another important factor of reliability is the official and up-to-date information from the reliable authorized internet portals, academies' presentations and articles, companies' websites.

The third circumstance of the reliability is the empirical research conduction. The chosen respondents for the interview are both experts in customs and banking systems and have been working in these field for over than 15 years. They have a comprehensive understanding and sufficient working experience in the field of the research. Therefore, the respondents were able to give useful knowledge any foreign SME should be aware of, gave useful advice and even shared some stories related to their work experience, supporting their statements.

The online factor that might influence the reliability of the research is a few respondents of the interviews. On the other hand, the researcher received quite similar answers from both respondents on the same presented questions. This fact proves the experts' compliance in the research questions.

In its turn, validity determines the accuracy of the measurement. It exams the quality and precision of the measurement related to what actually exists. The only valid measure is considered truthful (Burns & Bush 2014, 214). The research design is consistent with the theoretical framework. The questions are designed to receive answers to the investigative questions. Thus, they are valid for the research purpose. Since both interviews were conducted in the Russian language, the researcher was able to understand the respondent's statements opinion on each question. Moreover, conducting interviews in the native language of the respondents, encouraged both experts to speak liberated. The interview questions were designed especially for the research problem investigation, which proves the right selection of the experts.

5 Interview results and discussion

The chapter presents to the reader the results from the interviews. It displays ground knowledge of the experts along with their opinions on international trade and advice for the commissioning company. Furthermore, Chapter 5 analyses the respondents' answers to each question in details. The conclusion and recommendations will be presented according to the answers of the interview respondents and theoretical knowledge base.

5.1 Interview with the customs officer

In order, to understand what are the main customs regulations Russian companies should take into account, the interview with the customs officer was conducted. A customs officer is defined as a law enforcement agent who enforces laws of customs, on behalf of a government. (Luc De Wulf and Jose B. Sokol, 2015). The officer Kirillov Nikolay Vladislavovich has been working in the customs department for 15 years, therefore, he can provide the researcher not only with the useful information on today's rules of customs, but also give some recommendations and personal opinion related to the commissioner's business operations.

Starting with the first question regarding the main problems Russian companies face while conducting international payments and customs clearance, Nikolay answered that actually there are no problems if a Russian importer has exact bank details of a foreign exporter. According to his words, currency transactions are conducted quite simply: a Russian entity buys foreign currency and carries out a currency payment order towards the payment receiver company. If the order value exceeds 50000\$, execution of transaction passport of a sales contract is needed, which states the object of purchasing. The transaction passport is used for prevention of leakage of the local currency abroad. In past, additional requirements were taking place, for example, provision of a declaration of the goods imported by a Russian purchaser within 15 days. Sometimes this rule caused various penalties, administrative matters, and other fines. Now, this declaration and transaction passport do not have a deadline and must not be presented to the customs department directly. Instead, the customs officers exchange all the needed information with the bank electronically. When the transaction passport number and the inspector's name is provided to the customs officer, he receives all the data electronically. That information includes the sales contract, the value of the contract, an object of purchasing and payment transactions details that have been conducted for the performance of the contract. "You cannot just transfer money abroad and that is all. You import the product or return the

money. Otherwise, it is illegal money transfers abroad. If a company is conducting a real purchasing and importing of the product, no problems should arise during the process. Most likely, this is just acknowledgement of the topic. On the other hand, you go to the currency control department of the bank and address there all your questions and get the answers. It is simple” says Nikolay Vladislavovich.

The respondent stated that many companies do not have sufficient knowledge of customs process. Usually, a company has two options: working with the customs clearance on its own or “buy” official help from a customs representative, which Institute of services was recently introduced. The customs representative writes all the necessary documents, checks the documents on legislation conformity, registers the goods after they are delivered to the customs department. The payment to the customs agent is conducted when the importer received the imported good. If there is any legislation discrepancy, the customs representative carries a consolidated responsibility together with the client. This means that if any problem regarding documents arrangements arises, the fines are presented to the customs representative. The agent, in his turn, executes fines from his client.

Regarding the method of payment, it is hard to name the most common one. If a company works for the first time, then the firm would not like to give the goods in credit. The document consignment helps in this situation. After the product is delivered to the customs department and the importer paid for it, the exporter sends the consignment document, which allows the importer to receive the goods. Of course, for small and medium enterprises constantly working with suppliers, it is more comfortable to pay for the goods after the actual delivery.

In the case of importing electronic components, a company can avoid the provision of declarations, certificates and other non-tariff measures to the customs department, if the company purchases the components for the reconstruction or replacement of its plant or equipment. In this case, a company writes a guarantee obligation that the components will not be transmitted.

According to Nikolay Vladislavovich, since the Eurasian Economic Union or EEU was formed it is more relevant to name customs on the Russian Federation as the customs on the territory of EEU, although the meaning of Russian Federation still exists. In fact, the governments of the state members are trying to bring all the requirements and rules of the customs legislation of the EEU to a single one. In fact, if a company imports goods through the border with Belorussia and then transports them to the Russian Federation

territory, it must provide the customs with “statistical declaration”, which states that the goods were imported through Belorussia, but the final destination of the imports is Russian Federation territory. “It is your choice: you can register the components in Kazakhstan or Belorussia. Many companies register their imported products at the Belorussian border and then transport them to Russian Federation, due to the Belorussian close location to other European countries. It is important to mention that the fees and tariffs of EEU state members are unified, which are presented below:

- The registration of declaration
- Customs duties
- Anti-dumping duties
- Excises tax (alcohol, tobacco etc)
- Value-added tax
- Recycling collection

Besides, the government of Russia wants to impose VAT on the goods, which are competitive on the Russian market.

About the level of difficultness of customs control process, Nikolay Vladislavovich states that “the system of customs clearance in Russian Federation is quite difficult. I am working in this industry for 15 years, and each year new details appear, so a new person of this field might not find them, and not everybody can just come and do something. According to my experience, I can say that although the legislation of Russian Federation is unified for each region, the requirements for the package of documents may vary. One state, different regulations in areas”. A company, which is new to the trade business and deals with customs department without sufficient knowledge might get into serious troubles.

The acknowledgment is dangerous and such attitude to the customs control may turn sadly. “On the other hand, looking at what is happening in the world, I can see that the customs department of Russia has its results, because components should not be imported so easily, for example, radioactive components, which can be used in atom equipment construction”- Nikolay Vladislavovich stated.

On my question concerning the changes in importing indicators, the customs officer answered clearly that the customs department shows some corrections in imports amount, but right now, the imports increase is shown, due to the dollar value decrease.

The main recommendation to the commissioner from Nikolay was referring to the broker, but not an intermediary. In the commissioner's case, a broker is a Russian customs representative, who works with the customs registrations. Such brokers deal only with customs processes but do not work with international payments. Regarding the international payment intermediaries in business cases, are not legal. According to the respondent of the customs department, "this is left schemes. Many companies use them, but if somebody is caught, then he is caught".

Referring to the case of ML Components GmbH, the respondent of the interview states the most popular problem of trade process for small Russian SMEs. This issue of importing is the cost of a declaration on the goods. In fact, the declaration costs vary significantly, it can cost 100 €, 250 € or 1000 €, depending on the type of the goods of import. In order, to identify the costs for the declaration, it is essential to look upon the nomenclature of the components. Nicolay adds: "Probably, the problems occurred because the needed supplies from the commissioner were not big enough. It is not difficult, it is expensive. Let's say a company buys the component for 1000\$, plus transport, permitting documents. As a result, at the output, we receive \$ 3000, conditionally. Next time, the company carries smuggling".

According to the respondent, Russian customs regulations are changing every year. For example, shipment regulations differ from the land transportation rules significantly. If people step into this field for the first time, they might face some unpleasant problems. As additional fact, the customs officer told about the intellectual property as another segment. Companies cannot import products that are registered as someone's intellectual property. Therefore, such goods of intellectual property can be imported to another company and sold only by the company, which has right on this product. "There is one nuance in Russian regulation and it is uncomfortable for businesses. In some other countries, if a company sells the product to somebody, it loses its rights to the product. In Russia, the company still owns the rights to the product it already sold. Some people earn a lot of money on these rights. You were doing everything right, but not..."

5.2 Interview with Gazprom Bank representative

Cherenkova Julia Nikolaevna, the representative of Gazprom Bank, is an employee with 15 years of work experience in banking system. She gave the researcher informative answers on all the questions related to international payments and helped to gain better

comprehension of the banking system and reasons for particular challenges in the process of payment transactions.

On the first question regarding the most common problems in international payments, Julia Nikolaevna answers: “many Russian entities do not know about the terms for international payment conducting. You do not follow the deadlines, a delay occurs, and you pay 50000 Russian rubles, which equals to 790€. Probably, it is the biggest problem for Russian companies”.

Each international payment contains the process of currency control, which involves currency exchange. By such imposed control, the government of Russian Federation keeps track of the directions and the objects of payments. Thus, each company should provide the bank with sufficient information regarding each payment, which took place in the sales contract. Sometimes Russian SMEs are not willing to conduct currency exchange, because they do not want to “shed a light” on their business transactions. Besides, the second problem for companies can be imposed by some countries sanctions. In order, to conduct international payments professionally, both parties should have qualified workers in this field.

On the question if many Russian entities do not have sufficient knowledge about international payments and banking system, Julia Nikolaevna responds: “99% of the companies”. Only big companies with a big name working with foreign partners for a long time have knowledge in this sphere. Young companies are afraid of taxation, fines and, therefore, make agreements for payments in Russian rubles. There are no special courses for teaching employees about the international payment operations. According to the respondent of the interview, workers study by their own mistakes, also because regulations are changing constantly. “In past, everything was very difficult. During my 15 years of experience, I have been through 4 instructions, 2 of them have been changed globally.”- states Julia Nikolaevna. Sanctions also influence international payment process. Julia says that their bank, Gazprom, works with Germany, Australia and many other countries. Australia might delay payment process; they check the payment according to their sanctions lists. Therefore, they can delay the payment for 2 weeks and return it back. “However, it is good if they return it, sometimes they just leave this money in their banks and that money is not returned to anyone. It is not legal, but everybody refers to sanctions. In such cases the court takes participation,” says Julia.

In the beginning of international payment arrangement, a Russian company should set a sales contract with a foreign company regarding importing products, which specifies all the deadlines of delivery, payment and contains signatures from both parties of the agreement. If the total sales contract exceeds 50000\$, a Russian company executes a transaction passport. If the value of sales contract lower than 50000\$, the transaction passport is not needed, but the sales contract needs to be submitted to the Russian bank. The contract can be general: We, the Russian company X want to buy 2000 integrated circuits of Z type from the company Y. The specific details of the products should be discussed in the contract, as well as the product's total value. If the sales contract is a Master agreement type, the total value of products may not be stated. Both parties discuss if they register a transaction passport. For issuing the transaction passport, the companies should meet specific deadlines for providing the bank on the payments accounting, references, and other possible documents. If these deadlines are not met, administrative fines are applied.

Pursuant to the replies of the bank expert, the indicators of international payment transaction are not decreased nor increased during and after the recent crisis in Russian economy. Companies change the currency of payments, and what is more beneficial, tend to form exclusive agreements for their payment postponement.

In the end, Julia Nikolaevna recommends Russian SMEs to use a customs broker. Such kind of agents knows everything about international trade: costs, deadlines, document arrangements etc. It is important to note that some companies do not want to spend money on such customs brokers and say they were not able to conduct the international payment. Usually, such type of SMEs tends to use intermediaries, in order to conduct international payment, which is illegal in its turn. Banks reveal such "middlemen" and stop their processes, because they seem doubtful. "It is forbidden payments. Companies, which do not value their reputation, create such deals. In general, our clients provide us with their business operations data, so we know what they eat, where they sleep etc. This way, we can predict their business processes for 5 years"- Julia Nikolaevna. Besides, the alternative of opening a bank account by a non-resident, which will give Russian companies an option to conduct payment for the goods in their own currency, Russian rubles, will not work. The reason is that although such account are opened in a Russian bank and its main currency is ruble, all money transactions going to its bill are considered as international ones and go through the currency control since the owner is a non-resident of Russian Federation. Maximum the commissioner can get from opening such an account is

providing Russian SMEs with the easier option to pay, at the same time it will lose its own money. Therefore, it is not a solution for the problem.

5.3 Discussion

The respondents answered all the questions with extended explanation, gave full definitions and functions of particular documents and processes related to the customs and banking systems. Besides, the respondents gave similar answers in some questions, which gives the objective information on the topic. The results of the interviewing are included into the next chapter of recommendations and conclusions for the commissioning company of the Thesis.

6 Conclusions and recommendation

6.1 Conclusions

Key findings of the study show that the topic of the Thesis has a demand among Russian and Foreign SMEs. Moreover, during my research of internationalization, one representative from the Chamber of Commerce and Industry in Yuzhno-Sakhalinsk (Russia) showed his interest in the topic. The member of the Russian CCI addressed me the question is there any way to ease the international trade with Russia. Moreover, the Chamber representative was interested in what could be done to help Russian economy to develop faster.

In this research, the topic of SMEs internationalization process has been studied by theoretical guidance, context of research on Russian market primarily, and interviewing the experts of systems involved into the internationalization. A mixture of quantitative and qualitative research was completed. The responses from the interview respondents was a core value of the Thesis research. However, now when the Thesis study is completed, the researcher is able to answer the main questions of the Thesis problem:

How does the Russian market look like for ML components GmbH?

Russia is a quite challenging emerging market for the internationalization of ML Components GmbH. Various economists and politicians state the contradiction of Russian market by various measurements. Definitely, diverse challenges exist here for international SMEs such as laws, policies, economic and social factors. Many businesses in Russia have to adapt to the corruption conditions of the market, constantly acquire new knowledge and experience in conducting international trade, overcome barriers such as customs and banks' charges. On the other hand, Russian Federation, the biggest country in the world, an emerging market with a large infrastructure has a high potential for foreign companies regarding increase of profits and long-term partnerships. Besides, its technological gap with other countries generates high demand in the electronic components that the commissioner sells.

What should any SME, which is striving to deal with Russian market, take into consideration before entering the Russian market?

Any foreign SME, which is interested in conducting internationalization into the Russian market, should carefully analyse its challenges and potential. Russian trade policy differs from foreign policy systems significantly. Because Russian Federation is not a member of

the European Union, trade here requires professional knowledge about conducting international payments and customs processes. Thus, it is not enough to have a profound knowledge of what problems your SME may face while trading with Russian customers, but also what are the obstacles those clients may face while buying products from the firm. In the case of the commissioner, both parties of trade (Russian customer and ML Components GmbH) lack professional knowledge and experience in customs and banking sectors of Russian Federation.

What should be done by the commissioner to successfully realize trade with its Russian clients?

To realize trade with Russian customers successfully, the commissioner may hire a specialist, who is able to consult Russian companies or help them in the process of importing. It may include giving recommendations and tips to the companies such as information, sources or contacts of experienced customs representative, who is able to help the importer with the goods documentation for the customs department. Otherwise, providing the sales department of the company with sufficient knowledge about the topic may be one of the possible solutions of the commissioner's problem.

6.2 Recommendations

The objective of this Thesis research is not to provide a concrete method of internationalization into the Russian market for the commissioning company, but rather provide it with the analysis of arising problems and their solutions for successful international trade with Russian entities through the internationalization process.

It is important to state that the Russian market has a high demand in microelectronics and its market players are interested in international business cooperation. The main obstacle of the market is its closeness from foreign investment, trade and non-membership of the European Union. However, as the interview results show, the system of importing from abroad to Russia was much more complicated in past, now its regulations and policies are changing constantly towards the easiness and creating more opportunities for companies to develop the Russian economy.

The first recommendation to the commissioner would be providing its employees dealing with prospective Russian customers with profound knowledge about internationalization process and internationalization factors for the Russian market, which includes political, economic, social, technological, environmental and legal characteristics. Besides, the

SME should be aware of the possible risks internationalization into the Russian market may bring, and their mitigation. This information may be found in the context of research and empirical part of the Thesis paper. Moreover, a special sales contract for the Russian customers should be created, since this document should contain more information on the exchange specifications and the product, needed for the customs and banking departments while importing.

The commissioning company should be able to provide a short information about the Russian operations of international payments and receiving goods through the customs control to the small enterprise clients from Russian Federation. Thus, the Russian clients will be able to get information regarding importing the company's products or finding the customs representative in the way, it does not cause big loss of time to the commissioner. Moreover, presenting customers the company's knowledge, gives a good brand image of the commissioner, who seems to have experience in international trade and can be perceived as a serious market player abroad.

Another recommendation could be searching and developing close cooperation with Russian entities. As the social factors say, Russian entities prefer trustful long-term partnerships, which can be obtained by showing respect and patience by the commissioner. Besides, expanding the range of payment methods for small Russian entities could be done.

However, if the commissioner is not able to actively integrate into the Russian market, it may rather focus on exporting to only big companies related to the electronics manufacturing. As the research shows, big companies dealing with international partners do not have problems in purchasing process of the products, since they usually have their own customs representative or a special business department, which works with papers required for the importing system and has experience in it.

To conclude, all the stated recommendations are based on the research study of the Thesis and, the most suitable advice should be chosen according to the company's level of commitment of internationalization in the Russian market.

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Appendix 1. Interview Template for the customs officer

The following questions addressed to the customs officer, Kirillov Nikolay Grigor'ev, in Russian in May 2017.

1. What are the most common problems Russian and Foreign companies face in the processes of international payments and customs?
2. In your opinion, do most Russian and foreign firms have enough expertise in the field of customs process?
3. Which payment method is the most common for international payments between Russian and foreign, especially, German companies?
4. What documents for importing electronic components from abroad a Russian legal entity must present to the customs officers? What is the structure of the process?
5. What is a transaction passport? What its functions?
6. What fees do the customs officers collect during the process?
7. In your opinion, how difficult is the system of customs clearance in Russia? What Russian companies are afraid of the most in customs process? How does it affect foreign companies?
8. What can you recommend to the company ML Components GmbH in the situation, when its clients are facing difficulties with international payments? Can the firms, which sell the services of intermediary in international payments, be a solution in this case?
9. Could you supplement anything on this topic?

Appendix 2. Interview Template for the Gazprom Bank representative

The following questions were addressed to Cherenkova Julia Nikolaevna (the representative of Gazprom Bank in Yuzhno-Sakhalinsk, Russia) and Grigoryev Georgy Ivanovich (Vice-Chairman of the Chamber of Commerce and Industry, Yuzhno-Sakhalinsk, Russia) in Russian language in May 2017.

1. What are the most common problems banks face in the process of international payments?
2. What are the most common problems legal entities face in the process of international payments?
3. In your opinion, do most Russian and foreign firms have enough expertise in conducting international payment transactions?
4. Which payment method is the most common for international payments between Russian and foreign, especially, German companies?
5. All international payment transactions have to go through the currency control. What is it and what its functions?
6. What documents a Russian legal entity must present to the bank, in order to conduct an international payment transaction abroad? Particularly, to Germany?
7. What is a transaction passport? What its functions?
8. What fees do Russian banks charge in the process of international payment transaction?
9. How did the indicators of international payment transactions changed during the recent crisis in Russia and after?
10. In your opinion, how difficult is the system of international payment transactions in Russia? What Russian companies are afraid the most while conducting international payments?
11. Do you know any countries with similar international payment system as in Russia? If yes, what are they?
12. What can you recommend to the company ML Components GmbH in the situation, when its clients are facing difficulties with international payments? Can the firms, which sell the services of intermediary in international payments, be a solution in this case?

Could you supplement anything on this topic?